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STATE OF MICHIGAN
DEPARTMENT OF HUMAN SERVICES
LANSING



ISMAEL AHMED
DIRECTOR

February 10, 2009

The Honorable Bill Hardiman, Chair
Senate Appropriations Subcommittee on DHS
Michigan State Senate
Lansing, Michigan 48933

The Honorable Dudley Spade, Chair
House Appropriations Subcommittee on DHS
Michigan House of Representatives
Lansing, Michigan 48933

Dear Senator Hardiman and Representative Spade:

Section 674 of 2008 Public Act No. 248 requires the Department of Human Services to develop and implement a plan to reduce waste, fraud, and abuse within the child day care program and to report to the legislature on the plan details and implementation status. The department report is attached.

If you have any questions about the attached material, please contact John Sorbet, chief administrative officer, at 373-7787.

Sincerely,

for Ismael Ahmed

- c: Senate and House Appropriations Subcommittees on DHS
- Senate and House Fiscal Agencies
- Senate and House Policy Offices
- State Budget Director

Section 674 of 2008 Public Act No. 248 specifies that the department shall develop and implement a plan to reduce waste, fraud, and abuse within the child day care program. Beginning December 31, 2008, the department shall report annually to the senate and house appropriations subcommittees for the department budget, the senate and house fiscal agencies and policy offices, and the state budget director on plan details and implementation status.

Report to the Legislature

When the Child Day Care (CDC) system was put into place in 1992 it was designed as a work support program. As such, the goal was to offer as many avenues as possible for clients to receive day care assistance so that child care was not an obstacle to work participation. DHS has realized the necessity to make fundamental changes in the CDC program. These fundamental changes ultimately will meet the following goals:

- To improve the quality and safety of child care received by our children (for example, DHS has expanded the background checks we conduct on providers and adult household members.)
- To improve the financial integrity of the program (for example, DHS implemented a toll-free phone number for fraud referrals and a requirement for providers to complete a verification of care form that must be signed by the parent.)
- To improve the likelihood that families who rely on child care subsidy dollars to pay for a portion of their child care costs will be able to become self-sufficient.

These changes are critical to the success of the CDC program. It is important to realize, however, that these program improvements to increase efficiency and effectiveness will likely occur over several years and will include a combination of policy changes, technological innovations, and enhanced internal controls.

As part of this fundamental change DHS has created and implemented a comprehensive seven point plan to reform the CDC program that addresses errors, program noncompliance and fraud. The plan reflects ongoing collaborative commitment between the Office of Early Education and Care (which includes the Child Day Care program office), the Office of Inspector General, DHS Field Operations, DHS Bureau of Child and Adult Licensing, and the Office of Monitoring and Internal Controls to strengthen policy and procedures that will support program integrity, and provide for continuous monitoring to ensure accountability. The plan links process changes, enhanced oversight through the use of measurable performance indicators, and creates a system for continued feedback from our child care partners. Execution of the plan will generate baseline data to facilitate reliable ongoing accountability monitoring. The plan is detailed below.

Conduct Comprehensive Background Checks

The department requires all child care center directors, licensees and licensee designees to have an FBI fingerprint prior to licensure in addition to regularly conducting follow-up checks. In addition, the department requires every licensed center to conduct a criminal background check on their employees prior to employment. Adult household members of licensed child care homes are also required to submit to a criminal background check prior to issuance of a license. Regular follow-up checks are also conducted on child care home licensees and adult household members.

In April 2007, the department expanded the background checks being conducted for unregulated, unlicensed enrolled providers prior to their enrollment. In addition, at the time of enrollment, all identified household members are subject to these same background checks.

The comprehensive check includes four databases – Internet Criminal History Access Tool for criminal history; Offender Tracking Information System for incarceration and parole information; Public Sex Offender Registry for public sex offender registry information; and National Public Sex Offender Registry for national sex offender registry information. In addition to pre-enrollment background checks, the department conducts pre-enrollment and subsequent weekly central registry checks and monthly automated criminal background checks on the unregulated, unlicensed enrolled providers. In August 2008, the department added an additional pre-enrollment check, Federal Inmate Locator, for federal crimes and incarceration.

In November 2008, the department added inactive providers to the automated criminal background checks to ensure that inactive providers are coded appropriately to prevent re-enrollment.

Improve Payment and Billing Verification to Strengthen Internal Controls and Reduce Fraud

Effective April 2009, the department will implement modifications to the interactive voice response and Web-based billing systems. A new reporting system is currently being constructed that will match provider hours to client reports. When the system is operational, providers will report daily hours of care per child and clients will report daily need hours per pay period and the total hours of child care needed per pay period. Where these reports conflict, a new child day care reconciliation unit will work to resolve the differences before payments are made on behalf of the parents to their provider.

Review High Risk Child Day Care Cases

In May 2008, the department initiated a case review project to help improve case record documentation. In October 2008, the department expanded this effort across the state. During the first quarter of fiscal year 2009, the department reviewed cases in fourteen counties and, by the end of the fiscal year, we will have reviewed 5,500 cases in an additional 63 counties.

This project will measure for accurate and complete documentation in the client and provider CDC case record file. Identified errors and program noncompliance will be corrected on all cases. Each local office will develop a corrective action plan that will outline how they will address their individual office errors and this will be approved by a central office team which is comprised of representatives from DHS Field Operations and the Office of Early Education and Care. Corrective actions will be monitored and follow-up reviews will take place to ensure compliance with corrective action plans.

These reviews allow the department to identify and address root causes related to errors, program non-compliance and fraud. The results will provide data for continuous program improvement including revised procedures, policy clarifications, and related staff training. In addition, these reviews will help us meet federal requirements to conduct child day care case reviews and report a federal error rate.

Investigate Improper Payment Cases and Seek Prosecution

Since June 2004, the department has implemented a nationally recognized fraud detection program under the Office of the Inspector General (OIG). That office has completed more than 124,000 hours of investigations of the child day care program and has referred more than 3,000 cases for prosecution at the local level.

Another activity conducted by the OIG is Reverse Wage Match (RWM). The OIG continued the assignment of CDC RWM investigations in fiscal year 2008. The process is a data query that matches employment earnings as reported to the Michigan Unemployment Insurance Agency against CDC payment history. The query matches high dollar child care payments for an employment need with low quarterly employee earnings reports to help screen for potentially fraudulent CDC cases. The OIG expanded the CDC RWM technology to cover, at least for one quarter, 36 counties with the heaviest participation in Saginaw, Kent, Genesee, Kalamazoo, Berrien, Calhoun, Jackson, Washtenaw, Oakland, Macomb, and Wayne counties.

The chart below demonstrates the fiscal years 2005 through 2008 investigative performance of the Office of Inspector General utilizing Reverse Wage Match queries.

Reverse Wage Match Outcomes FY 05-07	FY 05	FY 06	FY 07	FY 08
Investigations assigned via RWM	730	384	777	810
Investigations referred for prosecution/administrative hearing	740	724	862	802
CDC fraud found	\$7.9M	\$7.6M	\$8.7M	\$8.3M
Completed investigations*	1,124	1,137	1,483	1,362

*Completed investigations are those where all actions have been taken by the OIG agent and include cases where fraud has and has not been found. Investigations initiated in one fiscal year may ultimately be completed in a subsequent fiscal year.

Provider Time and Attendance Record Review

Since March 2007, the OIG-Office of Monitoring and Internal Controls (OMIC) has reviewed time and attendance records of enrolled day care aides and relative care providers to determine if providers followed the requirements detailed in the provider handbook and reporting instructions for child care providers. In general, time and attendance records maintained by the providers reviewed did not meet these requirements.

Two thousand six hundred and sixty-six (2,666) of the 34,462 total aide and relative care providers were reviewed. From this review, it was determined that:

Providers	%	Category
492	18.5 %	Maintained adequate records
654	24.5 %	Records did not meet provider handbook requirements
400	15 %	Records not maintained
1099	41 %	Did not respond to request for records
21	1 %	Other
2666	100%	Total reviews

Since March 2007, OMIC has also increased the monitoring of improper child care payments through a client eligibility review. The review of 368 client responses to child care eligibility verification with supporting documentation determined:

Clients	%	Category
79	21.5%	Complied with program requirements
117	31.8%	Provided insufficient documentation
172	46.7%	Did not respond to request for records
368	100%	Total reviews

The department continues to explore options to provide training and additional assistance to clients and providers to ensure they understand program requirements. It is anticipated that OMIC will conduct an additional 4,200 time and attendance reviews during fiscal year 2009.

Terminate Inactive Clients and Providers to Prevent Improper Billing

In July 2008, the department adopted new policy that automatically closes inactive child day care cases. This reduces the risk of billings for cases that may no longer be eligible for child day care subsidy. Client case authorizations are automatically terminated after four inactive pay periods. Provider authorizations are automatically terminated after four months with no billing activity. From July to December 2008, the department closed 20,875 client cases and 18,812 providers.

Amend Child Care Administrative Rules

The current administrative rules for the CDC Program, R400.5001 et seq., are in the process of being amended. The proposed rules will define the administrative process to enable DHS to impose penalties and disqualifications on child care providers or clients receiving child care funds through program non-compliance or fraud. Uniform sanctions will be assigned for providers and clients found to be in non-compliance with the rules. The rule set has been revised by a committee comprised of department staff and external child care advocates. In December 2008, the rule set was submitted to the State Office of Administrative Hearings and Rules. We expect to hold public hearings on the rules by the summer of 2009 and that the rules will be promulgated by the end of 2009. This administrative process is critical to increasing the accountability of clients and providers, reliably identifying case closures due to fraud and accurately measuring related savings.

DHS will continue to focus on improving eligibility determination and payment accuracy to ensure public dollars reach those who truly need them.